



German artist Philipp Geist's light installation on Tehran Azadi Tower in honour of German Unity Day, October 4, 2015

## Market Overview 2

The Iranian stock market continued its downward trend, dropping more than 4.2% in September. This was largely due to reactivation of trading tickers of some of the large blue chip companies that were suspended by the regulator due to significant changes to their earnings. New earnings forecasts announced by these companies were adjusted downwards which resulted in sharp correction of their share price on the market. As example, shares of steelmakers, miners and refineries ended the month with a 10% loss in value. Having said that, small cap companies were amongst the best performers in September. Food companies like dairy producers ended the month recording double digit gains based on rumors about the government allowing a 10% rise in the selling price of their regulated products.

## Country Highlights 5

The most recent and important news about the country will be mentioned in this section.

## Economy 7

This issue reviews a distinctive transitional economic plan for the next six months along with statistical survey results released by Statistical Center of Iran.

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### Market Valuation

The latest inflation rate published in September by the Iranian Central Bank (CBI) confirms a decelerating trend in the inflation rate over the last few months. According to this report, the country's monthly inflation rate stood at 0.6%. In addition, Iran's YOY inflation rate reached 11.6%, recording its lowest level in almost 6 years. Given the current ongoing trend of inflation in the country, analysts expect the average P/E of the market to move higher from its current level of 5.2. It seems reasonable to expect the Central Bank of Iran (CBI) to intervene in the money market and announce a cut in interest rates in the future. Analysts expect the rate on one year deposits which is currently standing at 20% to be reduced to around 18%.

### Sugar

"Sugar & by-products" has been by far the best performing sector in the past two months. This industry, despite having 14 listed companies on the TSE, makes up only 0.2% of total market capitalization. The sector is not favored by value investors due to its high volatility, fluctuations in profitability, and inadequate liquidity of stocks.

Sugar companies suffered from massive imports

of low-priced sugar before 2014, which led to a 50% drop in the sugar industry's production over the past 18 months. The lack of import tariffs was the main reason behind the poor state of the sugar industry in Iran in previous years. Since 2013, with current Iranian government in charge, the trend has changed and the government has imposed strict controls over sugar imports. Based on the new regulations, the government has banned imports of sugar from October 2014 in order to support domestic producers who were suffering from vast imports of white sugar into the country. As a result, domestic sugar production is expected to rise by 50% this year which accounts for 80% of total consumption in Iran.

This month, the sugar sector appreciated by 3.7%, extending its two month rally to 20%. The P/E ratio at the end of September was more than 11, which, considering the size of this industry and the high impact of volatility in import policies, was seen as the sector's peak.

### Investment Companies

The stock prices of listed investment companies experienced a depreciation of 3% in the month of September, recording their lowest market value in the past two years. This trend also caused the price to net asset value (P/NAV) of the sector to fall below 70% for the first time in the past three years whereas, the long term average P/NAV of the sector in TSE is 80%.

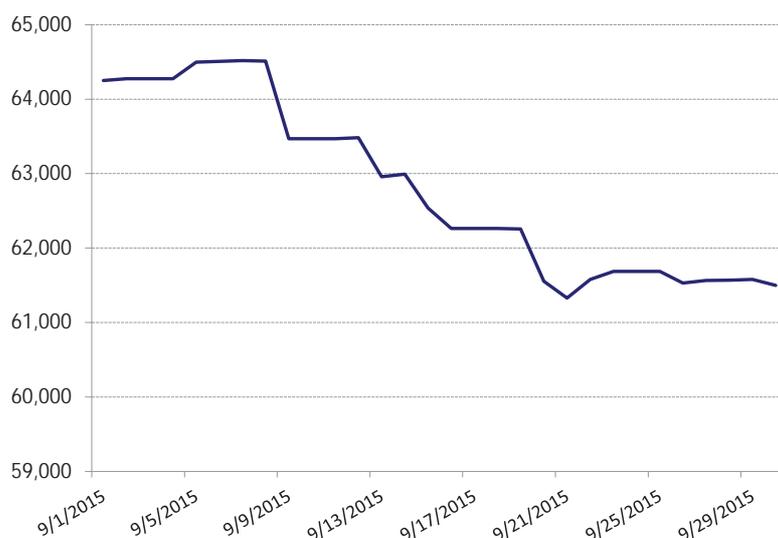
Historical data shows that investment companies usually enter a period of recession with a lag with respect to the market. This is due to the fact that investment companies possess portfolios which are heavily invested in the stock market and the weak results of these investments are reflected in their financials with a lag. Having said that, the current P/NAV figure still illustrates a 30% gap to the intrinsic value of these stocks. If history repeats itself, this gap cannot continue to increase much more and stocks in this sector may have bottomed out already. This will definitely provide long term investors with good opportunities to buy a listed portfolio of already cheap Iranian companies' equity shares with 30% discount.

### **First government debt listing**

Another major development over September was the listing of a government debt product on the Iran Fara Bourse (OTC market), the junior capital market of Iran, for the first time. This zero coupon debt product will mature in 5 months. Upon listing, the bond was traded around 10% below par value which gave it an effective interest rate of over 24%. It is worth noting that this rate is significantly higher than the banks' deposit rates, currently standing at 20%.

The first offering of these papers to contractors took place in September through the initial offering by the government, and the listing on the capital market took place in order to facilitate the secondary trades of these papers. These securities are expected to be met with strong demand in the coming months due to attractive yield and high safety as far as they are guaranteed by the Central Bank of Iran.

Performance of TSE All-Share Index (September)



Market Statistics (September)

|                                |        |
|--------------------------------|--------|
| Average P/E                    | 5.3    |
| Trade Value (\$ Billion)       | 0.9    |
| Trade Value Monthly Change (%) | - 10.0 |
| Market Cap (\$ Billion)        | 88.2   |

Top 5 Traded by Value (September)

| Rank | Company Name                       | Turnover Value (\$Million) | % of Total Turnover |
|------|------------------------------------|----------------------------|---------------------|
| 1    | Saderat Bank                       | 43                         | 5                   |
| 2    | National Iranian Copper Industries | 22                         | 2                   |
| 3    | Pars Khodro                        | 20                         | 2                   |
| 4    | Mellat Bank                        | 18                         | 2                   |
| 5    | Mobin Petrochemical                | 16                         | 2                   |

Top 5 Companies by Market Cap (September)

| Rank | Company Name                                | Market Cap (\$Million) | % of Total MC |
|------|---|------------------------|---------------|
| 1    | Persian Gulf Petrochemical Industry         | 8,810                  | 10            |
| 2    | Mobile Communications of Iran               | 3,919                  | 4             |
| 3    | Telecommunication Co. of Iran               | 3,388                  | 4             |
| 4    | Tamin Petrochemical Co.                     | 2,982                  | 3             |
| 5    | Islamic Republic of Iran Shipping Lines Co. | 2,921                  | 3             |

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 29,943 as at 30 September 2015. Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.

➤ After a long review process by various committees and councils, the Iranian parliament voted in favor of the Joint Comprehensive Plan of Action (JCPOA) which was reached between Iran and the EU3+3. Iranian lawmakers approved the JCPOA with 161 members of parliament voting in favour, while 59 voted against and 12 abstained. The agreement which was also endorsed by the United Nations Security Council on July 20<sup>th</sup>, provides a timeline and the necessary steps needed to be taken by the parties involved. The timeline includes an adoption day and an implementation day that specifies the various actions that each side needs to take for the deal to become fully effective. On October 18 (adoption day), the European Union and Iran issued a joint statement in which the EU announced the adoption of the legislative framework for all economic and financial sanctions against Iran to be lifted on implementation day. The United States also took measures that will lead to the cessation of the application of sanctions and termination of executive orders against Iran. Iran for its part, stated its commitment to the deal and its willingness to start the implementation of the provisions of the deal immediately. Under the JCPOA, Iran has agreed to place voluntary limitations on various nuclear related activities in return for sanctions relief. The International Atomic Energy Agency (IAEA) will take all the necessary steps in order to verify the implementation of the deal by Iran. After Iran has completed the steps it has agreed to take according to the JCPOA, all nuclear related sanctions will be removed simultaneously with IAEA verification of Iranian compliance. On October 19, Iran and the EU3+3 representatives met in Vienna for the first time after the July accord to discuss technical aspects of implementing the deal. Iran is hoping to complete its commitments in the next two months and analysts expect sanctions to be removed in early 2016.

➤ The Iranian Supreme Leader, Ayatollah Ali Khamenei, approved the implementation of the Joint Comprehensive Plan of Action in a letter to the Iranian President, Hassan Rouhani. In his letter, Ayatollah Khamenei stated nine conditions which must be implemented by the Iranian

government in regards to the nuclear agreement which was reached with the EU3+3. These conditions are set as Iran is supposed to execute its commitments, before sanctions are removed. The nine conditions included points such as a written confirmation from the US President and the European Union that all sanctions against Iran will be removed, and any mention that the structure of sanctions are to remain in place will be regarded as a breach of the JCPOA by Iran. The Iranian Supreme Leader also stressed that any new sanctions against Iran for the 8 year duration of the first phase of the JCPOA, under any pretext, will be considered as a violation of the other party's commitments to the agreement. The conditions further included precautionary steps by Iran in order to make sure the deal is respected by the other parties. Ayatollah Khamenei stated that Iran's commitments in regards to its heavy water reactor in Arak and the transfer of the country's low-enriched uranium out of the country should only take place with guarantees and proper contracts after the International Atomic Energy Agency has published its report on issues regarding Iran's past and present nuclear activities. The Iranian Leader has also ordered the formation of a group of experts in order to monitor the implementation of the other parties' commitments under the deal.

➤ The German foreign minister, Frank-Walter Steinmeier visited Tehran in mid-October and met with senior Iranian officials. This is the first time in 12 years that a German foreign minister has visited Iran, and Mr. Steinmeier is the second German minister to visit Iran since a nuclear accord was reached between Iran and the EU3+3 in July. During his trip to Iran, Mr. Steinmeier met with his Iranian counterpart, Javad Zarif, the Iranian President, Hassan Rouhani, and the Speaker of the Iranian Parliament, Ali Larijani. Germany has showed interest in increasing cooperation with Iran on various fronts. German business delegations have also visited Tehran in the past few months in order to re-establish and build new ties with Iranian partners. Germany used to be one of Iran's top trading partners prior to EU sanctions and with the removal of those sanctions, German companies are hoping to gain back some of the lost market share they used to enjoy in Iran.

➤ This October, the Core Group Meeting of the Munich Security Conference, took place in the Iranian capital, Tehran, for the first time. The meeting of more than 60 delegates, included foreign ministers of Germany, Iran, Afghanistan, Iraq, Prime Minister of the Kurdistan Regional Government, United Nations Deputy Special Envoy for Syria, Deputy Secretary General of the European External Action Service, as well as security committee heads of some European countries and a number of officials from Persian Gulf littoral states and other regional countries. The conference's focus was on security issues in the region such as Syria. After the Joint Comprehensive Plan of Action was reached between Iran and the EU3+3, this conference has now looked on how Iran and the West can cooperate on other issues such as security in the Middle East.

### Stimulus package introduced by President Rouhani

The Iranian President announced a distinctive transitional economic plan for the next six months to stimulate the economy prior to implementation of the nuclear deal and the lifting of sanctions.

In a televised interview President Rouhani warned against the return of economic recession and announced a government plan to combat economic slowdown. The shortage of working capital and the high cost of financing were mentioned as the key challenges faced by Iranian industries. The pressure on manufacturing sector causes a significant downward corrections on many industries' earnings. Lack of incentives to invest in equity markets due to high rate of deposits in banking sector was also highlighted as the main reason behind the bear market sentiment on the capital markets.

Banking sector is not able to lend to the corporate borrowers at lower rates since some of the problematic banks are under liquidity crisis and as a result pushed up the deposit rates, hence increasing the cost of money for the whole banking sector. This problem has also caused the interbank rate to go as high as 29% on an overnight basis. This is while the year on year inflation has dropped to around 11%. In his interview, the President noted that the cost of finance should decrease in line with the inflation rate which has not happened yet.

Below are some of the highlights of the new economic stimulus package introduced by the Rouhani administration:

### Monetary Expansionary Policies

In the new economic package, the banking sector lending capacity will be boosted through lowering the Reserve Requirement Ratio (RRR) for a number of banks with good records as far as they maintain their financial discipline in the banking system. The current RRR ratio

for all banks stands at 13%; it is planned to reduce this by 2 to 3 percentage points for more "responsible" banks. This policy will allow these banks to provide facilities at a lower cost. According to the CBI, decreasing the RRR by 1% will result in increasing liquidity growth by 4.5%.

### Fiscal Expansionary Policies

One of the measures in the new economic plan for boosting the aggregate demand level, is to provide low cost facilities to the industries tackling financial problems. This will also help in creating more jobs and securing current employed workers in various industries. The other channel is to increase spending power of households and stimulate demand of goods and services through increasing government expenditure. Historically, the government contributes to a large share of consumption nationwide, through its budget plan every year backed up mainly by oil revenues. In the new government's economic plan, around USD 2.5 billion will be allocated to small to medium size development projects stimulating sectors such as cement, construction materials, and etc.

Moreover, according to the new plan the non-oil sector will receive incentives in form of subsidies. All these expansionary measures are expected to increase the aggregate demand as a whole. He also said that providing low cost consumer finance schemes for purchase of durable goods with long-term installments is planned to be introduced to households through banks and financial institutions.

### Debt Issuance

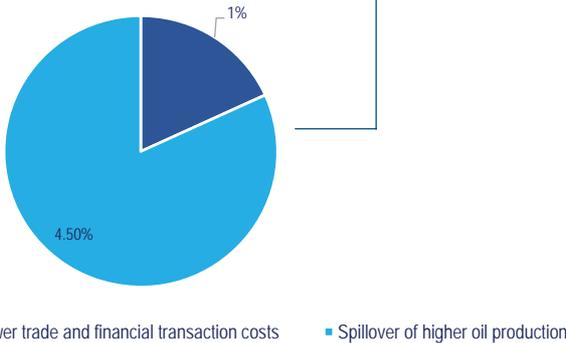
Empowering a regulated debt market and facilitating the government to sell its debts through issuance of Sukuk or Islamic bonds will enable the CBI to assist the banking sector in resolving their financial troubled assets. Recently the first "Islamic Treasury Bills" were launched in the domestic debt market in a move that was well received by institutional investors.

1. Statistical updates:

a. GDP & Inflation Outlook – 2016/17

Table 1. Revised Iran’s Macroeconomic Outlook

| Year/Indicator              | GDP Growth (%)  | Inflation    |
|-----------------------------|-----------------|--------------|
| 2015/16 ~ 1394 Iranian Year | -0.5% to + 0.5% | 14%          |
| 2016/17 ~ 1395 Iranian Year | 4% to 5.5%      | Single Digit |



Source: IMF, October 2015

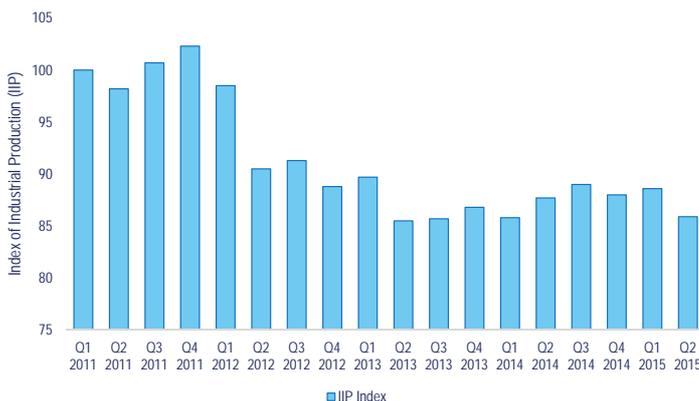
The GDP is expected to contract during the first half of 2015/16 from 3% in 2014/15 to between 0.5% and -0.5% in 2015/16.

Spillover of higher oil production is expected to play a major role in lifting GDP for next year (2016/17).

b. Index of Industrial Production – Q2 2015

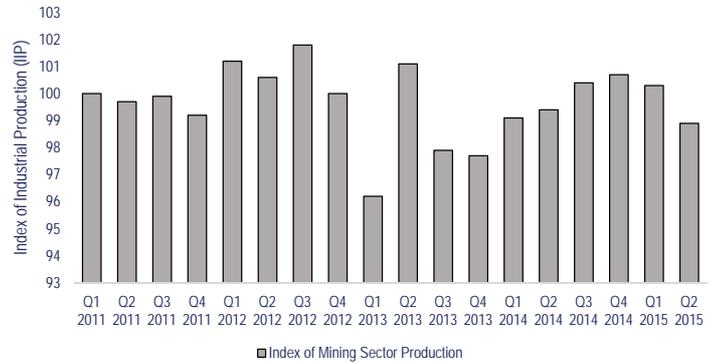
The index which is surveyed through 1800 workshops with over 10 employees, by the Statistical Center of Iran on a monthly basis, indicates that in spring 2015, the index declined 2% compared to the same period last year.

The biggest decline stems from the “manufacturers of motor vehicles and trailers” sector that showed the highest decline in production.



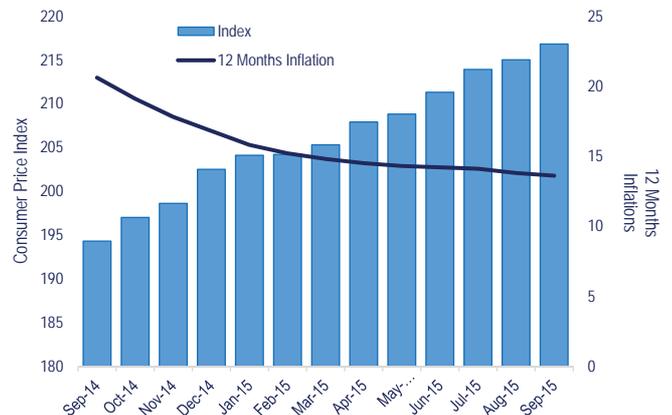
c. Index of the Mining Sector – Q2 2015

The index which is surveyed through 320 mining factories across the country by the Statistical Center of Iran on a monthly basis, indicates in spring 2015, the index declined by 0.6% compared to the same period last year.



d. Consumer Price Index – September 2015\*

The total consumer price index stood at 216.8 in September 2015, indicating a 0.9% increase compared to last month. The 12 month urban inflation rate ending at September 2015 stood at 13.6%, a decline of 0.2% compared to the same period last year. During this period, the index for food, beverages and tobacco remained unchanged while the significant decline occurred in the sectors such as housing, textile and services.



Source: Statistical Center of Iran

\*The inflation statistics from Statistical Center of Iran may differ from inflation reported by Central Bank Iran

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